

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

NOVEMBER 26, 1941

The President's Scratch-Pad



ALVIN E. DODD

importance and served to remind management of certain obligations that it has toward the so-called "white collar" class of employees.

Fair Treatment for White-Collar Workers

The statement was made by Dr. Robert P. Brecht of the Wharton School of Finance and Commerce that "the belief that office workers think and act as an essential part of management, still persisting in certain quarters, is naively dangerous," and that, "over an increasing area, office unionization is demonstrating the falseness of this assumption." He went on to warn that if companies increase the compensation of factory workers under the pressure of union demands but resist the demands of white-collar workers, simply because office employees are not organized, they are simply building ill will and discontent within their organizations that will ultimately break out in explosive form.

The only answer to the situation, both with respect to the relative compensation of factory and office workers and to helping office people meet the higher costs of living, is, as Dr. Brecht wisely suggests, a definite salary and wage program. It should be one that will integrate adjustments among the groups of employees and maintain the relative values of jobs within salary groups. Important above all, office workers should be made to realize that management is thinking about them—that it is not oblivious to their present problems.

Management has an important responsibility to maintain the morale of office employees which it can only discharge by

practical demonstrations of its good will toward them. A fair salary policy, a sound system of promotion and advancement, and the "human approach"—that is the answer to the white-collar problem.

Remind Employees of Their Income Tax Payments

At this juncture companies will be doing their employees a favor if they remind them now of the personal income taxes that must be paid this Spring. Our national income is now at the highest rate in history, which means that payments to individuals are at the highest point on record. Despite mounting cost of living, individuals now feeling "flush" will be paying taxes for the first time in their lives because of the broadening of the income tax base. A reminder now, just before the Christmas shopping season starts, of the tax bill in March would be timely indeed. A number of companies have reported to the AMA that they are distributing to their employees copies of the Treasury Department's "Know Your Taxes," a little leaflet showing the approximate taxes for various individual incomes.

Education Through Subcontracting

While little is heard about it, one of the soundest programs in management education that the country has ever enjoyed is now going forward under the subcontracting system. Smaller companies that for various reasons have never seriously attempted to improve their management methods are now finding it necessary to do so under defense production responsibilities. Much of this educational work is being done by the larger and more progressive concerns in their roles as prime contractors. They are loaning to subcontractors key executives who are showing the smaller companies how to do a better job in such matters as scheduling, cost control, personnel management, etc.

Alvin E. Dodd

BUSINESS OUTLOOK

Production Indexes Remain on Plateau While Transition to Defense Continues

During the past month the production indexes remained on a high plateau, but the accelerating drift toward a war economy injected new and confusing elements into the general business pattern. Stricter allocation of critical materials is reflected in the declining ratio of civilian goods production to production of munitions. A minority of observers believes that the spreading restrictions in non-defense industries presage a general business lull; actually, losses in civilian goods output are being more than offset by gains in defense lines.

Leveling-off tendencies are discernible in a few indexes, and the captive mines strike has yet to be reflected in the business statistics. The recent increase in retail sales—due in part to efforts to avoid excise taxes and to anticipate price rises—has abated; and a lull is now noticeable in such lines as autos, refrigerators, jewelry and toilet preparations, which had previously experienced a boom. Nevertheless, a long-term recession in sales is unlikely; in fact, a record-breaking Christmas season is predicted. While residential building has declined—and it is estimated that non-defense construction will be curtailed 65 per cent next year—armament plant construction proceeds at encouraging speed and bids fair to make 1942 the best building year in a decade.

The general economic background remains inflationary, with national income approaching the \$100,000,000,000 annual rate. Much of the recent rise in income denotes agricultural prosperity; farm purchasing power is at an all-time peak, and the farmer—as one observer puts it—is "in clover."

Transition Accelerates

How far the adjustment to a defense economy has progressed is indicated by the employment figures. Jobs in the dur-

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VOL. 14, No. 11—PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATION

	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	It may be expected that the national income in 1941 will be close to \$100,000,000,000 as compared with \$76,035,000,000 in 1940 and with the previous high record of \$82,885,000,000 in 1929. September was the first month in history in which national income in the United States exceeded \$10,000,000,000 (November 15).	The Business Index averaged 104 for October (preliminary), which compares with 88 in October of last year and 49 in 1932. Although the index may be expected to drop sharply when the war ends, revival of civilian business should spring from the backlog now accumulating (November 15).	For 21 weeks the <i>Business Week</i> Index has held within a three-point range—one of the longest sidewise movements on record. However, it won't be long before business breaks out of its rut. The steady introduction of new plants into defense operations is bound to provide a lift in the next several months (Nov. 15).
Money and Credit	Indications afforded by the volume of trading and by the movement of the bond market have not been clear-cut, but they have possessed some elements of encouragement. During the past week gilt-edged bonds sold at their best levels of the year (November 13).	Business management today must, above all, be sure to keep cash reserves at such high levels as to meet any contingency. It is not enough to provide for the high taxes that must be paid as a result of the 1941 bill; allowance must be made for further boosts in the rates—as long as the war lasts (November 1).	The increase in reserve requirements for Federal Reserve member banks went into effect this week; excess reserves fell to \$3,400,000,000, compared with about \$5,000,000,000 when the credit-control scheme was announced. However, excess reserves are still more than ample for commercial needs (November 8).
Security Markets	The stock market presents a situation in which prices of many industrial stocks and groups of stocks are at comparatively low levels in the face of earnings reports which show increases. Another phenomenon present is earnings improvement in the face of a market which is bearish as to major and minor trends (November 13).	At present the stock market tone appears to be reactionary, and the current news reveals the presence of unsettling elements. However, stock prices are relatively low and have largely "anticipated the worst." Favorable earnings and dividend trends, plus the inflationary tendencies, constitute strong supporting influences (Nov. 15).	The securities market seems divided again itself: For nearly five years, high-grade bonds have been advancing while common stocks have been in a downtrend. As yet speculators and investors aren't encouraged by long-term earnings prospects or the war outlook to go all-out in common stocks (November 8).
Production	The quantity of goods produced in September was the largest on record. Manufacturing output was 29.4% higher than in September, 1940, despite reduction in automobile production caused by defense restrictions. Steel production was 12.6% larger than a year ago (November).	Examples of civilian goods restrictions: (1) The cut in output of electrical refrigerators has been set at 43%; (2) non-defense users of copper will be limited to 60% of a 1940 base until January, when they must do without; (3) efforts to curb building operations include suspension of local permits (November 1).	Factory output continues at a high, constant level. Heretofore, a large part of the increase in arms output has been obtained through utilization of idle plant or the building of new plants, but now conversion of plant will become increasingly important; the ratio of civilian goods output to arms output will decline (Nov. 15).
Distribution	The drop of the seasonally adjusted index of department store sales from 134 in August to 112 in September was due to the failure of sales to show the usual seasonal expansion, rather than to a reduction in dollar volume. Actually, sales in September were 14.2% larger than in August (November 1).	The retail sales picture illustrates the spottiness that is growing under a war economy. The lull mentioned last month is now noticeable in the auto, refrigerator, jewelry, toilet preparation, and similar lines where a boom had previously boosted the sales indexes to virtually astronomical heights (November 1).	While sales have outpaced income throughout the defense boom, sales in September dropped while income rose. This should not be interpreted as a signal of a buyers' market; the government will have to siphon off a much greater proportion of consumer income before retail sales are likely to go into a long-term decline (Nov. 15).
Construction	Building contracts in September were lower than the record high volume awarded in August but they were well in excess of the volume in September last year. The prospect is that purchases by the building industry will hold up fairly well despite some curtailment of non-defense construction (November 15).	The <i>Engineering News-Record</i> weekly average of building engineering contracts for October was \$81,300,000, which represents a decline of 36.8% from September and of 42.3% from October, 1940 (November 1).	Construction of armament plants will be the chief sustaining factor in building next year. The SPAB recently estimated that non-defense construction would register a drop of 65% in 1942 from the 1941 level. Even so, 1942 will be a good building year—better than any year from 1930 through 1940 (November 15).
Agriculture	Since the Soviet government is in need of certain types of food products, it is reasonable to assume that these will be made available to Russia through purchases by governmental agencies of the United States. This will give the United States government increased power to control agricultural prices (November 15).	The Department of Agriculture's seasonally adjusted index of farm income registered 140.9 in August, which compares with 136.0 in July and 98.1 in August, 1940 (1935-9=100) (November 1).	Total farm production (physical volume) next year is expected to be at least 3% higher than the all-time record which 1941 is setting. This year's total cash income of farmers will probably be 17.5% higher than in 1940; next year may bring a further gain of 20% (Nov. 8).
Commodity Prices	The price index of 28 basic commodities as compiled by Bureau of Labor Statistics (August, 1939=100) rose to 154.6 during the week ending November 7 from 153.3 in the preceding week. Although latest index was below wartime peak (156.9, week ended Sept. 19), prices averaged 34.1% higher than a year ago (Nov. 15).	The slump in commodity prices—particularly some farm products—when the international situation took a critical turn about mid-October implies that some commodities are vulnerable to adverse war news or "peace scares," though inflationary factors are strongly evident in the general economic and war background (Nov. 1).	In the latest week for which figures are available, Moody's Spot Commodity Index averaged 209.6; this compares with 210.7 a month ago and 167.5 a year ago (Dec. 31, '31=100) (November 15).
Labor and Wages	Factory payrolls showed a further expansion in September, with the payroll index, as compiled by the Bureau of Labor Statistics (1923-1925=100), rising for the eighth consecutive month to 163.0 from the low prior to the present upward movement of 120.7, reached in January—an increase of 35.0% (November 15).	The Bureau of Labor Statistics' index of factory employment rose to 135.6 in September from 132.5 in August (1923-5=100). This represents a gain of 21.7% over September of last year (November 1).	In September there were 40,065,000 workers in non-agricultural employment, well above the previous peak. The gain over August was 43,000, indicating that increased operations in industry generally and particularly in defense plants succeeded in taking care of priorities in employment, and then some (November 15).
Foreign Trade and Conditions	Foreign trade figures have already begun to reflect increased shipments from the United States to the Soviet Union. The prospect is that from now on shipments to Russia will increase as rapidly as shipping facilities will permit (November 15).	Exports of merchandise from the United States totaled \$455,300,000 in August, advancing 30.1% over August, 1940; merchandise imports, on the other hand, amounted to \$282,500,000, registering a gain of 28.3% over a year ago (November 1).	There are fresh signs that—as the war intensifies—foreign trade is going to fall increasingly under the long arm of the government. Shipping interests predict freely that it will be a matter of only a short time before all American shipping is placed under the control of the Maritime Commission (November 1).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

	Dun's Review	Cleveland Trust Company	National City Bank
Week Index has —one of the record. How- business breaks duction of new bound to pro- ths (Nov. 15).	<p>The leveling-off tendency has carried into November. Neither the steadiness of production nor the slackening of trade activity is unexpected in view of the preceding rises. No significant weakening of business confidence is apparent. Moreover, the dynamic forces underlying the past expansion continue to gain strength (November).</p>	<p>While reports of a virtual doubling of the volume of our arms programs have been current, in many lines it will be impossible to double within the next two years the rates of munitions output originally planned for. Nevertheless, stringent curtailment and unexpected business changes are in prospect (Nov. 15).</p>	<p>Armament schedules continue to grow, and every addition to armament orders and every speed-up of schedules increases the call for diversion of industrial effort to defense activity, raises the requirements for materials, men and money, and widens the area of disturbance of normal business (November).</p>
ments for Fed- into effect this 400,000,000, as 000 when the ced. However, han ample for).	<p>Bank clearings (23 cities) totaled \$32,282,955 in October, an increase of 18.2% over the September total and of 27.7% over last October. The adjusted Insolvency Index (failures), at 48.2 in October, was fractionally below the September low and contrasted with 67.1 a year ago (December).</p>		<p>It is already clear that many concerns will have to borrow the cash to pay taxes. This means a danger of business becoming less and less liquid as we go along. With the federal debt already above \$53,000,000,000, it is evident we are piling up difficult debt and tax problems for the future (November).</p>
Divided against gh-grade bonds ion stocks have speculators and ong-term earn- k to go all-out).			<p>During the past month the security markets have been weakened by suggestions of methods of taxation that would seriously weaken the corporate position. Prices at which corporate shares are selling are evidence that shareholders are not expecting large profits but, on the contrary, are fearful of sustaining losses (November).</p>
high, constant of the increase through utili- ilding of new nt will become f civilian goods ne (Nov. 15).	<p>In the reports received from business the major point of comment is now on the changes and displacements required by the defense program. The over-all expansion of production actually came to a halt in September, but allowance in the FRB index for a slight setback in October carried it ahead 1 point to 163 (November).</p>	<p>Production during the past six months has ranged between 16% and 18% above normal. Actually it has been moving sideways on a high plateau that is at, or slightly above, the highest months of the boom year of 1929 and the World War peak year of 1916—both of which were 16% above normal (November 15).</p>	<p>Production in the aggregate is at its peak, and there never was a time when industrial capacity was being added to so rapidly. The output of machine tools continues to rise—the present rate is equivalent to \$800,000,000 a year. In non-defense industries curtailment is spreading (November).</p>
ome throughout ember dropped t be interpreted the government greater propor- retail sales are ine (Nov. 15).	<p>Adjustment to overbuying in earlier months and the mild weather's check on sales of fall merchandise caused consumer purchasing to expand at a much slower rate than usual in October and early November. The October gain in department store sales of 11% over 1940 was traced largely to higher prices (November).</p>	<p>Railroad freight traffic passed its peak for this year in October, the traditional peak month, without the country experiencing the car shortage that had been predicted. The increase in ton-miles of freight since the start of the present war has been about 70% greater than it was in the comparable period of the World War (Nov. 15).</p>	<p>The lull in general retail trade and in sales of new automobiles is accounted for to a considerable extent by the preceding abnormally heavy sales. Doubtless demand will revive again to higher levels in view of the rising pay-rolls and total national income (November).</p>
ts will be the ing next year. at non-defense op of 65% in so, 1942 will than any year mber 15).	<p>In October, for the first time since August, 1940, the value of building permits fell below the level of the corresponding month in the previous year. Permits issued in 215 cities amounted to \$124,735,069, a decrease of 9.1% from last October's \$137,159,305 (November).</p>	<p>Although armament schedules are being doubled, we shall be unable to construct enough new shipyards and launching ways within the next two years to double the programs of shipbuilding which were in effect last summer (November 15).</p>	<p>It is estimated by the OPM that construction will be reduced from \$11,200,000,000 in 1941 to \$8,500,000,000 in 1942. Lumber mills and brickyards could produce all the materials builders could use, but their markets will be narrowed by lack of metal products (November).</p>
l volume) next % higher than e setting. This ers will prob- 940; next year (Nov. 8).	<p>In contrast to earlier gains which resulted chiefly from the production rise, the latest increase in national income reflected mainly the expansion of agricultural income. Good harvests and higher prices have made for an exceptionally good showing of trade in rural areas (November).</p>	<p>With the exception of Brazilian cotton and Argentine wheat, we are now buying nearly all of the regular agricultural commodities offered for export by South American countries (November 15).</p>	<p>Farm purchasing power is the highest in the country's history. Cash income of farmers, including government payments, is estimated at \$11,200,000,000, bringing it back to the 1929 level; and the estimate for next year is \$13,000,000,000. Each farm dollar now has a purchasing power equivalent to \$1.15 in 1929 (Nov.).</p>
figures are avail- Index averaged a month ago 1=100) (No-	<p>After a short-lived setback in October, commodity prices were led upward again by rising farm and food prices. By the week of November 8, the all-commodity index (USBLS) had returned to the level of 91.7, the wartime high set three weeks earlier (November).</p>		<p>If the farm situation is kept free of price-raising measures, the productive capacity of the farms is the best assurance that farm commodity prices will not get out of hand. Fortunately, stocks of agricultural products under government loan have been coming back on the market (November).</p>
55,000 workers well above any ugust was 439, erations in in- ly in defense f priorities un- November 15).		<p>Between 1900 and 1940 total factory production increased twice as fast as the number of workers. Capital invested per worker in manufacturing plants in 1940 was more than three times what it was in 1900 (November 15).</p>	<p>More than two-thirds of the increase in the cost of living since the war started has been due to higher food prices. Labor is making this increase a basis for new wage demands, which naturally will be pressed harder if the upward movement continues (November).</p>
the war inten- all increasingly rment. Ship- t it will be a e all American ol of the Mari-		<p>Significant by-product of our defense program is a sharp reversal in the balance of trade between United States and South America. During the past year our imports jumped sharply from about \$30,000,000 monthly to well over \$50,000,000, while exports starting from about the same level increased only one-third as much (Nov. 15).</p>	

Insurance Managers Plan for Cleveland Conference, Dec. 9-10

Executives with insurance buying responsibilities from industries throughout the United States will meet in Cleveland on December 9 and 10 to attend the Winter Conference of the Insurance Division of the AMA. The Conference will be held at the Hotel Statler.

Reginald Fleming, Insurance Manager of The Commonwealth & Southern Corporation and Vice President of the Association's Insurance Division, has announced a program that will be largely devoted to case problems in loss adjustments and such current problems as: An Analysis of Property Damage and Use and Occupancy Requirements; Financial Aspects of the Selection of an Insurance Carrier; An Educational Program for Industrial Fire Protection; and Questions and Answers on Current Bonding, Fire, Casualty, Boiler and Machinery Insurance Problems.

The Conference will open with an introductory address by Mayor Frank Lausche of Cleveland. An important feature of the sessions will be an entire day devoted to Case Studies in Loss Adjustment. Authorities on this phase of insurance, representing the three parties necessary to every adjustment case—the buyer, the underwriter and the professional adjuster—will, step by step, go through the process of bringing each case to a logical conclusion. The speakers at this session will include: the buyer—J. H. Nickell, Insurance Manager, Philadelphia Electric Company; the adjuster—J. H. Burlingame, Jr., Assistant General Manager, Western Adjustment and Inspection Company; the underwriter—Daniel Royer, Chief Engineer, Ocean Accident & Guarantee Corporation; and Robert H. Byrnes, Assistant Secretary, Continental Insurance Company.

On Tuesday evening, December 9, there will be an address by John G. Foster, First Secretary of the British Embassy at Washington, on "British Insurance and Wartime Economy."

The session on Wednesday morning, December 10, will be devoted to a discussion of current insurance buying problems and will cover such topics as: An Analysis of Property Damage and Use and Occupancy Requirements; Financial Aspects of the Selection of an Insurance Carrier; An Educational Program for Industrial Fire Protection. The speakers at this session will include: P. H. Schindler, Manager, Insurance Department, The Youngstown Sheet and Tube Company; D. Roger Kenney, Insurance Editor, *United States Investor*, Boston, Massachusetts; and J. A. McGuckin, Philadelphia Electric Company.

At the Wednesday afternoon questions-and-answers session the panel will be composed of F. H. Doenges, Manager, Fidelity and Deposit Company of Maryland; C. D. Minor, Director of Education, Royal-Liverpool Groups; John A. Ross,



REGINALD FLEMING

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AMA Conference Taxes Given to Red Cross

A too literal interpretation of that part of the Revenue Act of 1941 bearing on admission taxes has resulted in a check from the AMA to the American Red Cross for \$176.70. Here's the story: The Association, after getting legal advice on the matter, placed a tax on the registration fees at the Office Management Conference, as seemed to be required by the Act.

Further inquiry by the Association about the necessity for the tax, however, resulted in a letter from the Commissioner of Internal Revenue which stated that "since no part of the fee charged those attending the conferences is used for entertainment (sic), the fees are not subject to tax." Instead of attempting to refund all the nickels and quarters that were collected in the form of taxes, the Association sent a check for \$176.70, representing the total amount, to the Red Cross and forwarded a photostat of the check with a letter of explanation to all who went to the sessions. Everyone is happy about it—including the Red Cross.

550 Production Men Attend Pittsburgh Sessions

Despite the constantly mounting pressure of defense production, more than 550 factory executives attended the Autumn Conference of the AMA Production Division, held last week in Pittsburgh. Further, the sessions turned out to be among the liveliest that have ever been held by this Division of the Association. Production men not only from Pittsburgh but from industrial centers throughout the country attended the Conference. Brass-tack discussions of such subjects as shift control, supervision, priorities, scheduling, costs featured the sessions.

"Ten Commandments" Sent to Members

To all members of the American Management Association has been sent a poster entitled "Ten Commandments of Good Management," which it is hoped will be placed conspicuously in offices and factories where it is received. The "Commandments" are the work of the late Malcolm C. Rorty, former President of the AMA, and had a limited distribution some years ago. The Association has revived them because of their bearing on present conditions and has added an introductory statement to the list.

Business Outlook

(Continued from front page)

able goods industries increased 31.5 per cent over the past year, and today more workers are employed in the manufacture of heavy goods than in non-durable lines. The full import of "all out" defense may be grasped from the mounting government restrictions on non-defense operations—e.g., the 51 per cent curtailment in auto output, the 43 per cent cut in production of electrical refrigerators, the 40 per cent curtailment in use of copper, and rationing of electric power in the southeast. Reports of a doubling of armament schedules are prevalent, but it is likely that limitations in our capacity or in our resources of labor and material will prevent doubling of rates of output over the next two years. If it is true that such increased programs are being adopted, the Cleveland Trust Company *Business Bulletin* declares, "the result will be that they will entail much more stringent curtailment in the production of ordinary civilian goods than has previously been contemplated. . . . In any event, we should be prepared for many unexpected business changes, for they are surely coming."

